

## CREDIT OPINION

16 April 2024

Update

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### RATINGS

#### IDB Invest

	Rating	Outlook
Long-term Issuer	Aa1	STA
Short-term Issuer	P-1	--

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# Inter-American Investment Corporation – Aa1 stable

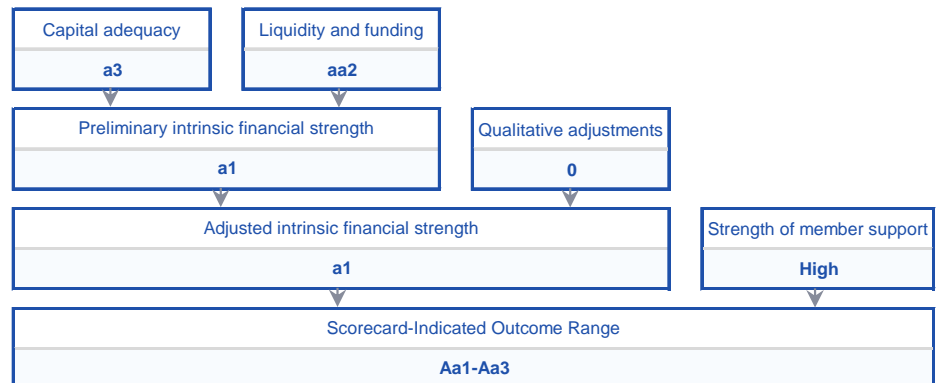
Update following rating affirmation, outlook unchanged

## Summary

The [Inter-American Investment Corporation's](#) (IDB Invest) credit profile reflects its robust capitalization and strong asset performance in the context of its private-sector focus. The institution's high member support and close relationship with the [Inter-American Development Bank](#) (IADB, Aaa stable) also support its credit profile. IDB Invest's conservative risk management practices keep its capital adequacy and liquidity ratios strong.

Exhibit 1

IDB Invest's credit profile is determined by three factors



Source: Moody's Ratings

## Credit strengths

- » Strong capital position supported by a moderate leverage ratio
- » Robust asset performance despite its private-sector focus
- » Strong liquidity coverage and market funding access

## Credit challenges

- » Lending without sovereign guarantees to the private sector
- » Moderate concentration risks stemming from its portfolio

## Rating outlook

The stable rating outlook reflects our expectation that IDB Invest's capital position will stabilize as it continues to expand on its new business model and its equity grows as part of the new capital increase process. Its robust credit risk management practices will continue to allow IDB Invest to maintain strong asset performance despite the risks posed by its operations within the private sector in Latin America and the Caribbean. Strong liquidity coverage and favorable market access will also support its credit profile.

## Factors that could lead to an upgrade

Upward rating pressure is limited by the difficult operating environment in which IDB Invest carries out its lending and investment activities, and potential risks from its private-sector-focused operations. Although unlikely, the introduction of callable capital as an additional backstop for investors would enhance IDB Invest's credit profile.

## Factors that could lead to a downgrade

Downward rating pressure would emerge if there were significant credit losses, for instance, from a more acutely difficult operating environment or a continued increase in leverage that pushes this metric closer to IDB Invest's policy limits, which would result in a sharp deterioration in capital adequacy. A weakening of support from its shareholders or the IADB would also weigh on its credit profile.

## Key indicators

Exhibit 2

IDB Invest	2018	2019	2020	2021	2022	2023
Total Assets (USD million)	3,209.3	3,899.8	6,424.3	7,551.4	9,401.2	11,328.2
Development-related Assets (DRA) / Usable Equity [1]	97.5	127.4	211.8	231.1	223.8	268.3
Non-Performing Assets / DRA	0.7	0.6	0.4	0.3	0.4	1.8
Return on Average Assets	0.9	1.2	0.1	1.9	1.2	1.6
Liquid Assets / ST Debt + CMLTD	290.0	5,497.1	248.1	178.7	229.8	246.8
Liquid Assets / Total Assets	45.8	34.9	33.0	25.9	27.5	23.1
Callable Capital / Gross Debt	0.0	0.0	0.0	0.0	0.0	0.0

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Ratings

### Profile

The Inter-American Investment Corporation (IDB Invest) was established in 1986 as a separate legal entity within the IADB Group. It has its own governance structure, including a separate Board of Governors, Board of Executive Directors, management and staff. IDB Invest is owned by 48 member countries, which include 26 developing countries in Latin America and the Caribbean (LAC). Voting power is proportional to each member's paid-in shares.

IDB Invest's mission is to promote the economic development of its regional developing member countries by encouraging the establishment, expansion and modernization of private-sector projects that do not benefit from a sovereign guarantee and aim to bolster competitiveness, inclusive growth and sustainable practices. Since 2016, IDB Invest manages all private-sector operational and administrative functions for the IADB Group to better serve and maximize the development impact for clients and partners in LAC. IDB Invest provides financing through loans, guarantees, investments in debt securities and equity investments where sufficient capital is not otherwise available on adequate terms in the market. IDB Invest also arranges financing from other investors through loan participations, co-financing arrangements and unfunded participations. In addition, IDB Invest provides financial and technical advisory services to its clients.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding, and the strength of member support. For Multilateral Development Banks (MDBs), the first two factors combine to form the assessment of intrinsic financial strength, as illustrated on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information, please see our [Supranational Rating Methodology](#).

### FACTOR 1: Capital adequacy score: a3

Our "a3" Capital Adequacy score for IDB Invest reflects its moderate leverage and development-related assets' (DRAs) credit quality, as well as strong asset performance. Other MDBs with the same capital adequacy score are [Corporacion Andina de Fomento](#) (CAF, Aa3 stable) and the IADB.

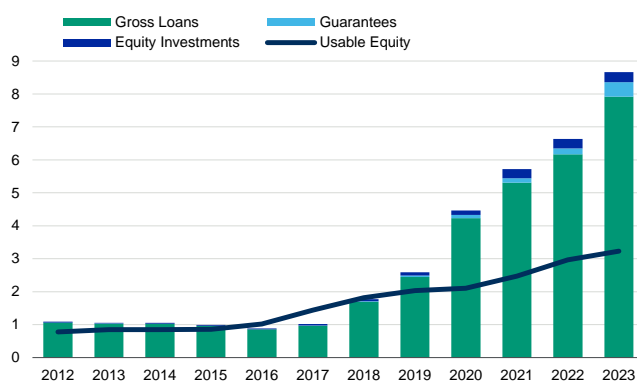
### Sharp increase in DRAs because of expanded mandate, and pandemic response has pushed up leverage

Since 2016, the IADB Group's renewed vision for its private-sector activities has been accompanied by IDB Invest's second general capital increase (GCI), which will increase its equity by \$2.03 billion by 2025 (tripling it in size compared with that in 2016). This additional capital and increased market borrowing allowed IDB Invest to increase its DRAs to \$8.7 billion by 2023 from about \$1 billion in 2017 (see Exhibit 3). The expansion of IDB Invest's loan book contributed to an increase in its leverage ratio — determined as DRA/usable equity — to 268% in 2023, up from 224% in 2022 (see Exhibit 4). As a result, IDB Invest's capital position is assessed as "baa1" compared with "aaa" six years earlier. A significant portion of this increase is attributed to the coronavirus pandemic-related support measures for the private sector in the LAC region in 2020-21. However, there was an additional sharp increase in DRAs in 2023 because all of the IADB Group's new private-sector operations were originated by and recorded solely on IDB Invest's balance sheet — the co-financing period between IDB Invest and the IADB that was part of the GCI-II process ended on 1 January 2023. We expect IDB Invest's leverage to peak in 2023-24 and decline thereafter as new equity comes in as part of the newly agreed third GCI starting in 2025.

Exhibit 3

#### DRAs have increased significantly since 2017 because equity grew as a result of a capital increase

DRAs by type in \$ billion

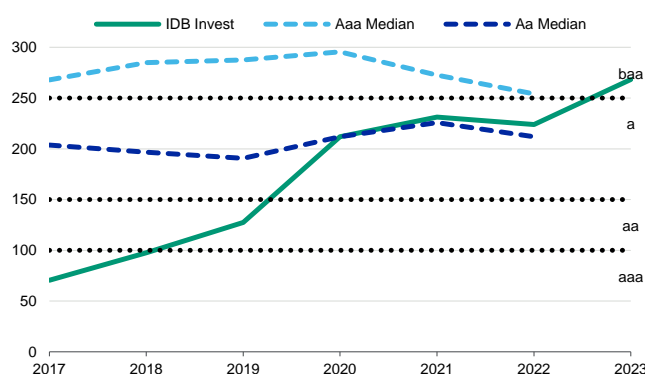


Sources: IDB Invest and Moody's Ratings

Exhibit 4

#### IDB Invest's leverage is increasing and is higher than the "Aa" median

DRAs/usable equity (%)



The Aa and Aaa medians are only available until 2022 because not all MDBs that we rate have published their 2023 financial statements.

Sources: IDB Invest and Moody's Ratings

### Asset quality remains moderate despite exposure to private sector

We assess IDB Invest's development assets' credit quality (DACQ) as "baa." In guiding the expansion of its DRAs, it has followed a set of risk management policies and practices that have helped mitigate some credit risks associated with operating within the private sector in the LAC region without sovereign guarantees. The starting point of our analysis of IDB Invest's DACQ is the weighted average borrower rating (WABR) of its loan book, which was Ba3 in 2023, the same WABR that IDB Invest has maintained since 2020. It has also increased the use of credit insurance protections, which covered 18.4% of its portfolio as of 2023. Last year, IDB Invest's gross loans accounted for 91.4% of DRAs, with equity investments at only 3.5% of total DRAs, while the remaining 5.1% was made up by guarantees. In terms of portfolio concentration, IDB Invest has maintained a well-distributed portfolio by country. The Herfindahl-

Hirschman Index (HHI) for country exposure was 6.9% in 2023, down from 7.6% in 2022, with only [Mexico](#) (Baa2 stable) consistently in the top five country exposures in recent years (see Exhibit 5). In terms of sector concentration, IDB Invest has also further diversified its development assets. Overall, we find that IDB Invest's DACQ profile is similar to those of the [International Finance Corporation](#) (IFC, Aaa stable) and the [European Bank for Reconstruction and Development](#) (EBRD, Aaa stable), which have similar business models focusing on the private sector and also score "baa."

### Asset performance remains strong despite rise in NPLs in 2023

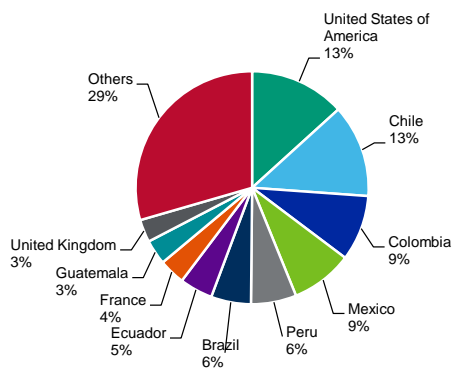
IDB Invest's asset performance is strong, as reflected in our score of "a2" for this metric. We assess an MDB's asset performance by taking into account its nonperforming assets (NPA)/total DRAs (NPA ratio), which includes nonperforming loans (NPLs) over 90 days, losses on equity investments and called guarantees. Despite weaker economic growth in Latin America over the past five years, IDB Invest's NPLs have remained broadly stable at an average of \$18.5 million in 2020-22 compared with \$14.5 million in 2019. However, NPLs spiked in 2023, expanding to \$146 million. In 2023, IDB Invest recorded an equity impairment of \$6.9 million, similar to the level of \$6.8 million recorded in 2022.

Since 2014, the NPA ratio had been improving because of a combination of rapid DRA growth and stable NPA, reaching 0.4% in 2022 and a three-year average of 0.4% in 2020-22. Nevertheless, asset performance experienced a relatively significant deterioration in 2023, with the NPA ratio rising to 1.8% because of the aforementioned increase in NPLs. In spite of this, asset performance remains in line with and stronger than that of other MDBs with similar missions (see Exhibit 6); for example, the NPA ratio of the EBRD was 6.6% in 2022.

IDB Invest's strong asset performance has been driven by its capital adequacy policies, which have guided a prudent expansion in the institution's operations and contributed to improvements in its credit risk management. During the pandemic, IDB Invest's management reviewed its project pipeline on a country-by-country basis, implementing differentiated limits for long- and short-term transactions. It also uses stress testing to identify potential losses.

Exhibit 5

### DRA exposures by country Percentage of DRAs, 2023

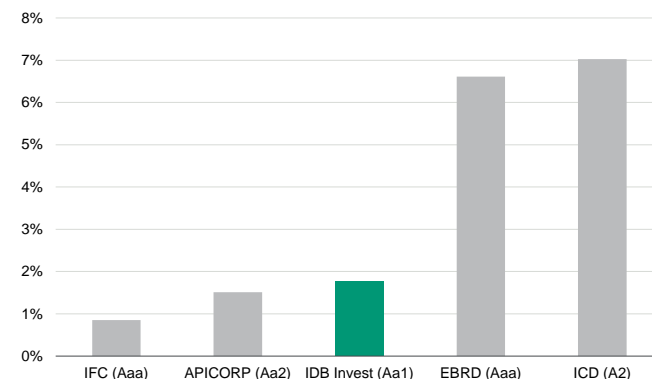


Operations recognized in the US and the UK correspond to the location of the insurers providing the credit insurance protections.

Sources: IDB Invest and Moody's Ratings

Exhibit 6

### NPAs compare favorably with those of peers with a similar mandate NPA % (latest)



Sources: IDB Invest and Moody's Ratings

## FACTOR 2: Liquidity and Funding score: aa2

IDB Invest's "aa2" Liquidity and Funding score is supported by strong liquidity coverage that we assess at "aaa" and a quality of funding assessment of "aa." Other MDBs with a similar score for liquidity and funding include the [Council of Europe Development Bank](#) (CEB, Aaa stable), [Central American Bank for Economic Integration](#) (CABEI, Aa3 stable) and the [Caribbean Development Bank](#) (CDB, Aa1 stable).

### Liquidity coverage is strong because of favorable maturity profile and strong liquidity policy

IDB Invest's liquidity coverage is strong enough to withstand a stress scenario, which would include the bank not being able to access financial markets and members suspending their capital contributions. The institution's liquid resources ratio — which compares the size of its high-quality liquid assets with its net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs — shows that it holds enough assets to enable it to function for more than 18 months. However, IDB Invest's liquidity is stronger than that indicated by this ratio for several reasons. During a severe stress scenario, it could access its contingent credit line with the IADB (for which we include a positive adjustment). Additionally, IDB Invest has consistently exceeded the minimum liquidity coverage ratio of 105% (which includes a 5% buffer), as required by the liquidity policy framework that IDB Invest implemented in December 2017 and updated in March 2021.

### Changing borrowing patterns has smoothed out debt service coverage ratio

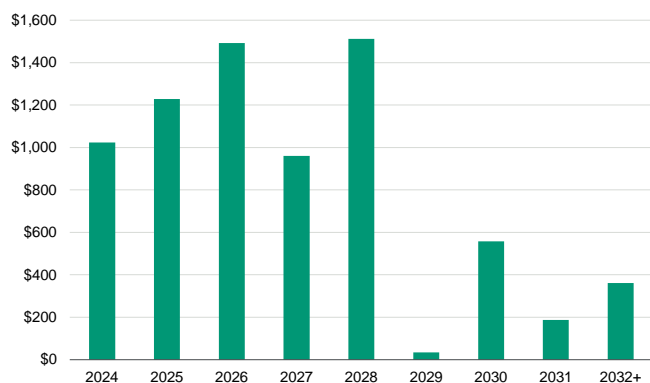
IDB Invest's increased debt issuance in the past four years has changed the structure of its maturity profile. Before the expansion of activities and borrowing, its amortization schedule was somewhat uneven, with larger maturities only occurring every other year since 2014. Moreover, even during years when larger maturities were due, liquid assets amounted to more than double the amount of short-term and maturing long-term debt due during the next 12 months. The higher frequency and size of issuances have led to a smoother maturity profile (see Exhibit 7). Although most of the debt falls due within the one- to five-year range, IDB Invest has extended maturities to 20 years. We expect IDB Invest to maintain its strong debt-service coverage and its liquidity to become more stable.

### Thematic bond issuance continues to increase

A core element of IDB Invest's work in recent years has been the issuance of thematic bonds that fall into three categories: sustainable, social and green. IDB Invest issued \$1.3 billion in sustainable bonds in 2023. Sustainability bonds currently make up 61% of the outstanding thematic borrowings, followed by 29% for social bonds and 10% for green bonds (see Exhibit 8).

Exhibit 7

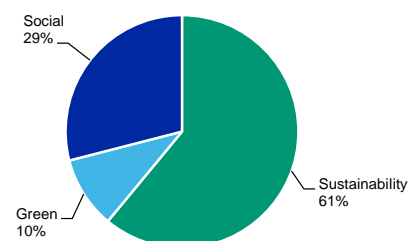
#### Maturity profile has smoothed as IDB Invest borrows more Maturities, \$ millions



Sources: IDB Invest and Moody's Ratings

Exhibit 8

#### Outstanding borrowings by theme in 2023 Percentage of total



Sources: IDB Invest and Moody's Ratings

### Liquid assets have a short duration and are of high quality and diversified

Because of its liquidity policy, IDB Invest manages its treasury portfolio to be able to rapidly mobilize its resources. Total liquid assets in 2023 amounted to \$2.6 billion, with 97.1% being investment securities and 2.9% being cash and equivalents. Within investment securities, 87.1% is invested in debt securities and the remaining 12.9% is invested in money market funds. Nearly 48% of debt securities had a duration of less than one year, and the rest of the portfolio has a duration between one and five years. The liquidity portfolio is well diversified by geography.

### Strong market access at favorable terms and growing market diversification

The pandemic-driven rapid expansion of IDB Invest's DRA reflects a significant shift in its borrowing strategy, with much larger authorized borrowing amounts in recent years. While larger issuances have remained primarily in the US dollar market, IDB Invest

maintains a presence in regional markets and has also begun issuing in Australian dollars and euros. The introduction of the global bond program will enable IDB Invest to expand its presence in other major currency markets.

This is leading to increased diversification of its borrowings not only in terms of currency but also in terms of the geography and type of investor. More than half of its bonds are held by central banks and other official institutions, followed by banks and asset managers.

The introduction of IDB Invest's sustainable debt framework in early 2021 also contributed to an increase in ESG-related issuances. This, in addition to the more diversified investor base, has contributed to a tightening of the spread in its issuances relative to Aaa-rated MDBs, thus lowering its borrowing costs and demonstrating IDB Invest's strong market access.

### Qualitative adjustments to intrinsic financial strength

#### Operating environment

We do not apply an adjustment for the operating environment. Although parts of the LAC region could face macroeconomic challenges, especially because of IDB Invest's private-sector focus, we do not expect it to face additional risks that could significantly weigh on its credit metrics beyond what the intrinsic financial strength ratios already capture.

#### Quality of management

Although we do not apply an adjustment for the quality of management, IDB Invest has continued to strengthen its financial strategy and risk management practices, particularly in the context of the consolidation of the IADB Group's private-sector operations. Following the introduction of the Financial Risk Management Framework (FRF) in 2017, which included risk appetite, capital adequacy and liquidity policies, IDB Invest's board of directors approved further enhancements to the FRF in 2021. These included limits based on exposure, a reduction in single-name limits for equity and quasi-equity, a reduction in limits for financial institutions, the establishment of a capital buffer of 10%, increased reporting frequency, and an improved stress-testing regime and action plans. These risk policies provide a strong governance framework for IDB Invest and, because of strong compliance with these limits, support our expectation that IDB Invest's financial metrics are highly likely to remain very strong.

### FACTOR 3: Strength of Member Support score: High

Our assessment of IDB Invest's strength of member support is "High," adjusted up by two notches from "Low." Other MDBs with the same strength of member support include the IFC and the [North American Development Bank](#) (NADB, Aa1 stable).

This assessment incorporates the absence of members' contractual obligations in the form of callable capital but a very strong willingness of members to provide non-contractual support, as exemplified by the shareholders' support for the second GCI (GCI-II) process and IDB Invest's expanded mandate. The members' ability to provide support is higher than what is implied by the weighted average shareholder rating (WASR) metric.

#### IDB Invest's GCIs and expanded mandate demonstrate members' strong willingness to provide support...

Since IDB Invest was first established in 1986 with initial paid-in capital of \$200 million, it has received several selective capital increases to allow the entry of new members and capital reallocations. In 1999, it received a \$500 million GCI. In 2015, IDB Invest's board of governors approved GCI-II to increase the organization's authorized capital stock by \$2.03 billion between 2016 and 2025 (the last payment was advanced and made in Q4 2024). Although a portion of the new capital involved transfers from the IADB on behalf of its members, two-thirds of the new equity came from fresh contributions from its shareholders. Through 2023, because of the GCI-II, IDB Invest's paid-in capital increased to \$2.5 billion from \$1.3 billion in 2017.

In March 2024, members agreed to provide IDB Invest with a third GCI that will provide \$3.5 billion in new equity between 2025 and 2031. The approval of two GCIs within a decade demonstrates the member's strong willingness to support the entity because of the developmental impact it has had in recent years. In particular, the [United States of America](#) (Aaa negative), IDB Invest's largest shareholder, was an important driver of the new GCI.

#### ...but ability to support is moderate because of average credit quality of members

IDB Invest's member base has a moderate ability to provide support, as reflected by a WASR of Ba1, up from Ba2 a year earlier, but still down from Baa3 in 2017. One factor that has particularly weighed on this metric in the past few years is the volatility in the ratings of [Argentina](#) (Ca stable) and [Venezuela](#) (C stable), which weakened the WASR because of their important shares at 11.5% and 2.4% of total subscribed capital, respectively. Notwithstanding Argentina's and [Ecuador's](#) (Caa3 stable) rating downgrades in recent years,

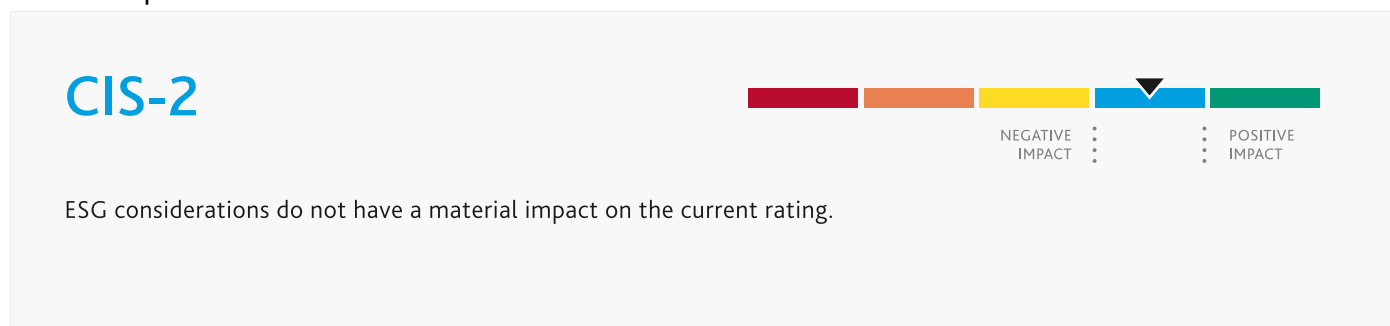
these governments have made their paid-in capital payments on time, demonstrating their willingness and ability to support IDB Invest despite their own macroeconomic challenges.

## ESG considerations

### Inter-American Investment Corporation's ESG credit impact score is CIS-2

Exhibit 9

#### ESG credit impact score



Source: Moody's Ratings

IDB Invest's **CIS-2** credit impact score reflects low exposures to environmental, social risks and supportive governance practices. Despite the moderate exposure to environmental and social risks of the countries where it operates, IDB Invest's operations within the private sector contribute to the development of Latin America and the Caribbean, enhancing its importance to shareholders. Governance at IDB Invest has strengthened over the past several years as it has been able to prudently manage credit risks that could have stemmed from a rapidly growing development portfolio in line with its expanded mandate.

Exhibit 10

#### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

IDB Invest's **E-2** environmental issuer profile score balances the overall exposure to environmental risks of its borrowers in Latin America and the Caribbean and its development operations related to renewable energy and climate risk mitigation projects supporting carbon transition goals in the region. In 2023, IDB Invest exceeded its goal of 30% of operations addressing climate change in the region, with 32% of total operations (51% of long-term ones) related to this issued.

### Social

IDB Invest has a social issuer profile score of **S-2**, with strong customer relations delivering important financing products for private sector development in Latin America and the Caribbean. Additionally, it demonstrates a high degree of responsible production by providing instruments to its clients that enhance its impact on socioeconomic development, including the issuance of social bonds in domestic markets to serve as benchmarks for local issuers.

## Governance

IDB Invest's **G-2** governance issuer profile score reflects its prudent risk management practices that translate into strong credit metrics, in particular asset performance, given its exposure to private sector operations in Latin America. As part of the expansion of its development mandate related to the second general capital increase process, IDB Invest transitioned to also manage the credit risk of all private sector operations within the whole IDB Group portfolio, i.e., including the assets that are still in the IADB's balance sheet.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#). Additional information about our rating approach is provided in our [Supranational Rating Methodology](#).

## Recent developments

### New business model and third GCI for IDB Invest approved

The 2024 Annual Meeting of the Board of Governors reached an agreement on a new capital increase of \$3.5 billion for the New Business Model for IDB Invest. This initiative is part of the broader Institutional Strategy, a new project aiming to adopt an impact-focused approach for the whole of the IADB Group. In particular, the addition of \$3.5 billion in capital for IDB Invest will help the entity expand its lending to partners in Latin America and the Caribbean, with a stated goal of more than doubling annual lending from the current level of about \$8 billion to \$19 billion.

The new Institutional Strategy will significantly expand the scale and impact of the IADB Group operations. Including both the IADB and IDB Invest, the group aims to increase lending capacity by up to \$112 billion over the next decade. To support the growth in financing, the group hopes to unlock about \$50 billion from the IADB through balance-sheet optimization, and another \$59 billion from IDB Invest through balance-sheet optimization and possibly new capital and mobilization. Moreover, new financial instruments, such as debt-for-nature swaps and contingent debt relief clauses, are also cited as potential avenues for the group to redistribute risk, gain more additional capital and mobilize more resources.

At its core, the Institutional Strategy focuses on three objectives: reducing poverty and inequality, addressing climate change and bolstering sustainable regional growth. The framework calls for ambitious reforms to the current operations model of the IADB Group, in line with calls for global MDB reform, with a significant push for shifting to a new results-based, programmatic approach. In particular, the IADB Group aims to adopt a new Impact Framework that will provide new metrics with which the group's performance can be monitored and measured.

### Increased leverage and NPAs are temporary and likely to moderate

IDB Invest experienced a marked increase in its leverage ratio, defined as DRAs/usable equity, to 268% in 2023 from 224% in 2022. Consequently, IDB Invest's Capital Position score fell from "a3" to "baa1." Leverage growth was in large part a result of an increase in short-term lending operations that occurred as of year-end 2023. Nevertheless, we expect IDB Invest's leverage ratio and capital position to improve in the short to medium term with the receipt of additional capital. IDB Invest is likely to receive \$500 million in funding per year starting in 2025.

Asset performance likewise deteriorated in 2023. Although the NPA ratio was low at 0.4% in 2022, consistent with the 2018-22 annual average of 0.5%, it grew significantly to 1.8% as of year-end 2023. Driving this was a large increase in NPLs because of a small number of projects. IDB Invest has historically faced few impairments, and we expect a return to this previous trend in the coming years. Such a return would provide a boost to the MDB's credit profile because the asset performance score has declined to "a2" from "aaa" in 2022.



## Rating methodology and scorecard factors: IDB Invest - Aa1 stable

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
<b>Factor 1: Capital adequacy (50%)</b>			<b>a3</b>	<b>a3</b>
<b>Capital position (20%)</b>			<b>baa1</b>	
	Leverage ratio	<b>baa1</b>		
	Trend	0		
	Impact of profit and loss on leverage	0		
<b>Development asset credit quality (10%)</b>			<b>baa</b>	
	DACQ assessment	<b>baa</b>		
	Trend	0		
<b>Asset performance (20%)</b>			<b>a2</b>	
	Non-performing assets	<b>a2</b>		
	Trend	0		
	Excessive development asset growth	0		
<b>Factor 2: Liquidity and funding (50%)</b>			<b>aa2</b>	<b>aa2</b>
<b>Liquid resources (10%)</b>			<b>aaa</b>	
	Availability of liquid resources	<b>aa1</b>		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	+1		
<b>Quality of funding (40%)</b>			<b>aa</b>	
<b>Preliminary intrinsic financial strength</b>				<b>a1</b>
<b>Other adjustments</b>				<b>0</b>
<b>Operating environment</b>		0		
<b>Quality of management</b>		0		
<b>Adjusted intrinsic financial strength</b>				<b>a1</b>
<b>Factor 3: Strength of member support (+3,+2,+1,0)</b>			<b>Low</b>	<b>High</b>
<b>Ability to support (50%)</b>			<b>ba1</b>	
	Weighted average shareholder rating	<b>ba1</b>		
<b>Willingness to support (50%)</b>				
	Contractual support (25%)	<b>ca</b>	<b>ca</b>	
	Strong enforcement mechanism	0		
	Payment enhancements	0		
	Non-contractual support (25%)		<b>Very High</b>	
<b>Scorecard-Indicated Outcome Range</b>				<b>Aa1-Aa3</b>
<b>Rating Assigned</b>				<b>Aa1</b>

**Note:** Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

## Related websites and information sources

- » [Moody's Supranational web page](#)
- » [Moody's Sovereign and supranational rating list](#)
- » [IDB Invest web page](#)

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